

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

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In re Consolidated Application of )  
 )  
**EchoStar Communications Corporation,** )  
**General Motors Corporation,** )  
**Hughes Electronics Corporation,** )  
 )  
Transferors, )  
 )  
and )  
 )  
**EchoStar Communications Corporation,** )  
 )  
Transferee, )  
 )  
**For Authority to Transfer Control** )  
\_\_\_\_\_ )

**CS Docket No. 01-348**

**To: Cable Services Bureau**

**COMMENTS OF PAPPAS TELECASTING COMPANIES IN  
OPPOSITION TO APPLICATION**

## SUMMARY

The proposed merger of EchoStar and DirecTV would create a virtual monopoly in the direct broadcast satellite (“DBS”) market, and would place almost all DBS frequencies available in the United States in the Ku-band that are capable of covering the entire continental United States in the hands of a single DBS provider. If approved, this merger would eradicate competition between the nation’s two primary DBS providers, creating a DBS monopoly in most areas. Even assuming, *arguendo*, that the relevant product line is multichannel video programming distribution (“MVPD”) – a position to which EchoStar has only recently converted after announcing its intention to acquire DirecTV – the merger would still create monopolies in many smaller markets where there is no cable provider, and would, at best, create a duopoly in all remaining markets between EchoStar and the local cable incumbent.

The vast majority of viewers – indeed over 86% of consumers nationwide – receive local broadcast stations today via cable or DBS. Since DBS first emerged as a competitor to cable in 1994, competition between DirecTV and EchoStar has not only given rise to a vibrant \$10 billion DBS business with over 17 million subscribers, but it has also provided much-needed competition to the local cable monopolies. Competition between DirecTV and EchoStar, as well as between DBS and cable, has benefited consumers in innovation, service, programming and pricing. Competition between the two primary DBS providers has also been critical to the growth of local-into-local broadcast television service, and has served the important government interest in “preserving a vibrant mix of local broadcast outlets for over-the-air viewers,” a

conclusion recently validated by the Fourth Circuit U.S. Court of Appeals in its decision upholding the constitutionality of satellite must-carry.

As an operator of 20 full-power television stations in 14 markets across the United States – most of which are in markets either currently served by EchoStar or DirecTV, or in which EchoStar has announced plans to provide local-into-local service upon consummation of the proposed merger -- Pappas believes that the clear anti-competitive effects of the proposed combination would threaten the continued viability of local broadcast television, and would have severe adverse consequences for local broadcasters and their viewers. First, viewers of local broadcast television would be at the mercy of a DBS monopoly or, at best, a cable-DBS duopoly in the broader MVPD market. Consumers' access to local broadcast stations, which is essential to the continued viability of local broadcast television, would as a consequence be controlled by one or two MVPD players in most markets -- and in rural markets, for example, by only one. Second, Pappas notes that the two primary DBS providers – and, in particular, EchoStar – have consistently engaged in a pattern of seeking to evade their statutory obligations under the Satellite Home Viewer Improvement Act of 1999 and the Commission's implementing regulations. As is more fully discussed, *infra*, EchoStar's pattern of conduct calls into question its commitment to fulfill its statutory and regulatory obligations, and therefore raises particularly grave doubts as to whether it should be entrusted with monopoly power in the DBS market. The transfer of control application should therefore be denied because its clear anti-competitive effects and other adverse consequences would be incompatible with the public interest.

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Pappas Telecasting Companies (“Pappas”), pursuant to Section 1.405 of the Commission’s Rules, hereby submits its Comments in Opposition to Application in the above-captioned proceeding.<sup>1</sup>

EchoStar Communications Corporation (“EchoStar”) and Hughes Electronics Corporation (“Hughes”), a subsidiary of General Motors Corporation, (“GM”), have

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<sup>1</sup> These Comments are submitted in response to the Commission’s *Public Notice* entitled “EchoStar Communications Corporation, General Motors Corporation, and Hughes Electronics Corporation Seek FCC Consent for a Proposed Transfer of Control,” CS Docket 01-348 (rel. Dec. 21, 2001).

announced an agreement whereby GM will spin off Hughes, including its Direct Broadcast Satellite (“DBS”) business, DirecTV, which will then merge with EchoStar. The parties to this transaction have filed a *Consolidated Application For Authority to Transfer Control*, (the “Consolidated Application”) seeking authority to transfer control of satellite, earth station, and other authorizations, including licenses to use orbital satellite positions for DBS services, into the new company.<sup>2</sup> As a provider of free over-the-air local television programming in 14 markets across the country, Pappas would be substantially harmed by the proposed merger of EchoStar and DirecTV. The proposed merger would create a DBS monopoly, eliminating the competition currently existing between these two DBS companies to offer local-into-local television service in more markets. The proposed merger would also enable the combined entity to exercise even greater market power in both the purchase and distribution of television programming, to the detriment of the stations operated by Pappas, and ultimately to the detriment of their viewers.

As an owner and/or operator of broadcast stations in many of the markets in which EchoStar and DirecTV either presently offer local-into-local service, or plan to offer such service in the near future, Pappas has a substantial interest in this proceeding. As set forth in greater detail in these Comments in Opposition to Application, a grant of the Consolidated Application would harm the public interest, and, therefore, Pappas opposes the Consolidated Application.

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<sup>2</sup> See generally EchoStar Communications Corporation, General Motors Corporation, Hughes Electronics Corporation and EchoStar Communications Corporation, Consolidated Application for Authority to Transfer Control (Dec. 3, 2001).

## **I. The Impact of the Proposed Merger on Pappas**

Pappas, founded in 1971 and headquartered in Visalia, California, is one of the largest privately-held owners of television stations in the United States. Through its affiliated entities, Pappas currently is the licensee or permittee of 16 full-power television stations, and operates four additional full-power stations pursuant to local marketing agreements (collectively, the “Pappas Stations”).<sup>3</sup> Pappas is presently the sole domestic affiliate of Azteca America Incorporated, an emerging Spanish-language broadcast television network, which commenced operations in the United States in July 2001. Pappas currently broadcasts Azteca America programming on its stations in the television markets of Los Angeles (KAZA-TV, licensed to Avalon, California), San Francisco-San Jose/Sacramento-Modesto (KTNC-TV, licensed to Concord, California), and Houston (KAZH (TV), licensed to Baytown, Texas) (these three stations are sometimes collectively referred to herein as the “Pappas Azteca Stations”).<sup>4</sup>

In addition to KAZA-TV, KTNC-TV, and KAZH (TV), other Pappas Stations operate in local markets where one of the DBS providers offers local-into-local service (*e.g.*, WTWB-TV, Lexington, North Carolina, currently carried on DirecTV’s system in that market). In addition, as EchoStar has publicly indicated an intent to offer local-into-

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<sup>3</sup> Pappas operates the following full-power stations in the following markets: WWSW-TV, Opelika, Alabama (Columbus, Georgia Designated Market Area or “DMA”); KPWB-TV, Ames, Iowa (Des Moines, Iowa DMA); KMPH-TV, Visalia, California, and KFRE-TV, Sanger, California (Fresno, California DMA); WTWB-TV, Lexington, North Carolina (Greensboro-Winston-Salem-High Point, North Carolina DMA); KAZH-TV, Baytown, Texas (Houston, Texas DMA); KTVG-TV, Grand Island, Nebraska, KHGI-TV, Kearney, Nebraska, KSNB-TV, Superior, Nebraska, and KWNB-TV, Hayes Center, Nebraska (Lincoln-Hastings-Kearney, Nebraska DMA); KAZA-TV, Avalon, California (Los Angeles, California DMA); WMMF-TV, Fond du Lac, Wisconsin (Green Bay, Wisconsin DMA); KPTM-TV and KXVO-TV, Omaha, Nebraska (Omaha, Nebraska DMA); KREN-TV, Reno, Nevada (Reno, Nevada DMA); KTNC-TV, Concord, California, and KFWU-TV, Fort Bragg, California (San Francisco, San Jose-Sacramento-Modesto, California DMA); KPTH-TV, Sioux City, Iowa (Sioux City, Iowa DMA); KSWT-TV, Yuma, Arizona (Yuma, Arizona/El Centro, California DMA); WASV-TV, Asheville, North Carolina (Greenville-Spartanburg-Anderson, South Carolina/Asheville, North Carolina DMA).

<sup>4</sup> In addition to the named Pappas Azteca Stations, Pappas also owns and operates a class A television station, KUVR-LP, Reno, Nevada, which also airs Azteca America programming.

local service in up to 100 markets if the merger is approved,<sup>5</sup> the Pappas Stations would be entitled to assert carriage rights on the DBS provider's systems in those markets. Pappas concurs with the other broadcasters, consumers, lawmakers, and public-interest groups in this proceeding who have opposed the Consolidated Application on the grounds that it would create a *de facto* monopoly in the DBS market, would have a clear harmful effect on local broadcast television and its viewers, and would thereby threaten the continued viability of local broadcast television.

## **II. The Statutory Carriage Mandates Under SHVIA Have Not Been Satisfied**

In analyzing the Consolidated Application, the Commission should consider the proposed transferee's (*i.e.*, EchoStar's) record of non-compliance with its statutory and regulatory requirements. As the merger between DirecTV and EchoStar would result in a DBS monopoly, it is essential that the potential holder of such important Commission authorizations demonstrate that it is qualified and committed to fulfilling its statutory and regulatory mandates, and that the transaction serves the overall public interest. Pappas believes that these criteria have not been met. As set forth in greater detail below, EchoStar's conduct reflects a pattern of evading its Congressionally-mandated satellite carriage obligations. Therefore, the Consolidated Application should be denied.

### **A. The Satellite Must Carry Requirements Are Premised on the Need to Preserve the Vitality of Local Broadcast Television Stations**

The Satellite Home Viewer Improvement Act of 1999 ("SHVIA") sets forth a stringent "carry one, carry all" rule that requires all DBS carriers who use SHVIA's compulsory copyright license to provide local-into-local retransmissions in a local market

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<sup>5</sup> Hearing on the Status of Competition in the Multi-Channel Video Programming Distribution Marketplace Before the U.S. House Subcommittee on Telecommunications and the Internet, 107th Cong. (Dec. 4, 2001) (statement of Charles Ergen, Chairman and CEO, EchoStar Communications Corporation).



to carry, upon request, the signals of all broadcast stations within that local market.<sup>6</sup> The carry one, carry all rule is “meant to preserve the ability of independent broadcasters to reach their local audiences,” thereby “preserving a multiplicity of local broadcast outlets for over-the-air viewers.”<sup>7</sup>

Congress recognized that without a carry one, carry all requirement, viewers would risk “the loss of independent stations needed to provide those viewers with a rich mix of broadcast programming from multiple sources.”<sup>8</sup> Carriage by EchoStar and DirecTV of the Pappas Azteca Stations,<sup>9</sup> in particular, furthers the Congressional goals underlying SHVIA. As demonstrated herein, despite the strict Congressional carriage mandate, the DBS operators – especially EchoStar – have engaged in a pattern and practice of contravening SHVIA and the Commission’s regulations by improperly denying, or seeking to impede the exercise of, the carriage rights of qualified local broadcast stations throughout the country. A grant of the requested license transfers to a licensee which has repeatedly violated its statutory and regulatory mandates would clearly *not* serve the public interest.

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<sup>6</sup> 47 U.S.C. § 338(a)(1).

<sup>7</sup> *Satellite Broadcasting and Communications Association v. FCC*, 2001 U.S. App. LEXIS 25120, \*44 (2001).

<sup>8</sup> *Id.* at \*47.

<sup>9</sup> The Pappas Azteca Stations currently include KAZA-TV, KTNC-TV, and KAZH-TV.

## **B. DBS Providers' Evasion of Carriage Requirements in Dealings with Broadcasters**

The DBS providers, and in particular EchoStar, have endeavored to thwart carriage of many local broadcast stations. Notably, during the initial election notification period that concluded on July 1, 2001, EchoStar and DirecTV have both routinely sought to evade their carriage obligations by, among other tactics, responding to lawful mandatory carriage requests with form denial letters that were inconsistent with SHVIA's requirement that DBS providers have a "reasonable, good-faith basis for denying carriage,"<sup>10</sup> and which improperly placed the burden upon the broadcasters to prove that they were eligible for carriage.<sup>11</sup> Consequently, the Commission ordered *sua sponte* that the DBS operators' carriage of local broadcast stations "is not to be avoided by denials where there exists no legitimate controversy as to the station's qualifications."<sup>12</sup>

EchoStar's pattern of noncompliance with statutory and regulatory requirements is clearly evidenced by its recent dealings with the Pappas Azteca Stations. The experience of one of the Pappas Azteca Stations, KAZA-TV in the Los Angeles Designated Market Area ("DMA"), is particularly illustrative of EchoStar's improper tactics. After KAZA-TV submitted its initial carriage request to EchoStar, the station received one of EchoStar's "form" denial letters which improperly sought to require the station to prove adequate signal strength and also claimed that the station was not in the

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<sup>10</sup> *Entravision Holdings, LLC v. EchoStar Communications Corporation*, 2001 FCC LEXIS 6692, ¶ 4 (CSR-5758-M, rel. Dec. 13, 2001).

<sup>11</sup> *See, e.g., Implementation of the Satellite Home Viewer Improvement Act of 1999: Broadcast Signal Carriage Issues*, Order on Reconsideration, 16 FCC Rcd. 16544, ¶ 57 (2001) ("SHVIA Reconsideration Order").

<sup>12</sup> *Id.* *See also The Long Family Partnership v. EchoStar Communications Corporation*, (CSR-5764-M, rel. Jan. 31, 2002); *Christian Television Corp. v. EchoStar Satellite Corporation* (CSR-5764-M, rel. Jan. 31, 2002) (challenging EchoStar's improper use of form letter denials in rejecting carriage requests).

DMA where EchoStar was providing local-into-local service. (EchoStar's letter is attached hereto as Exhibit A).

Then, EchoStar announced a date and location for testing broadcast stations' signals in the Los Angeles DMA. (See EchoStar's testing letter attached hereto as Exhibit B). However, once the broadcasters' engineers arrived at the designated location on the appointed date, EchoStar advised them that it would not allow access to the download cable from the TV receiving antennas installed near the top of a 120-foot tower – a decision clearly intended to thwart any resolution of signal quality issues. EchoStar informed approximately 18 broadcast stations assigned to the Los Angeles DMA that the stations should make the required signal strength measurements at street level, using the broadcasters' equipment. This arrangement did not allow for measurements of the receive carrier levels and also did not permit formal observation of EchoStar's received picture qualities.

After an independent engineering firm hired by one of the broadcasters convinced EchoStar to allow access to the roof of the building containing the receive equipment, almost all of the broadcast stations demonstrated an adequate signal, including KAZA-TV. Pappas believes that EchoStar's "testing" demonstrated a lack of good faith by EchoStar in complying with its SHVIA requirements, because it improperly placed the burden upon on the broadcasters, and the testing conditions were predisposed to yield inadequate signal results.

Subsequent to EchoStar's signal test demands, the Commission clarified in its *SHVIA Reconsideration Order* that EchoStar could not deny an initial carriage notice on the basis of requiring the broadcaster to prove adequate signal strength.<sup>13</sup> EchoStar

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<sup>13</sup> See *SHVIA Reconsideration Order*, ¶¶ 56-57.

nevertheless then continued its pattern of delay, by persisting in making improper claims that KAZA-TV was not in EchoStar's local-into-local market for a period of several months.<sup>14</sup>

Despite these unsettling delay tactics, in furtherance of the Commission's policies that encourage informal resolution of carriage disputes,<sup>15</sup> Pappas took the initiative of contacting EchoStar on several occasions to penetrate EchoStar's "red tape."<sup>16</sup> Finally, on November 26, 2001, EchoStar responded and acknowledged that it would carry Pappas Azteca Stations KAZA-TV and KAZH-TV pursuant to must carry requirements.<sup>17</sup> Other broadcasters have experienced similar SHVIA noncompliance by EchoStar, and have had to incur "considerable expenditures of time, money, and effort" to overcome EchoStar's "repeated, meritless objections" to broadcasters' carriage requests.<sup>18</sup>

### **C. DBS Providers' Hindering of Consumers' Ability to Receive Local Broadcasts**

Within weeks of having finally, and seemingly reluctantly, agreed in principle to carry the Pappas Azteca Stations, EchoStar unveiled yet another scheme for evading its

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<sup>14</sup> See EchoStar letter to Pappas dated September 17, 2001 regarding KAZA-TV; *see also* similar letter to KAZH-TV (attached hereto as Exhibit C).

<sup>15</sup> *SHVIA Reconsideration Order*, ¶ 60.

<sup>16</sup> See correspondence from Pappas to EchoStar, attached hereto as Exhibit D.

<sup>17</sup> See EchoStar letter to Pappas dated November 26, 2001 (attached hereto as Exhibit E). Pappas's Stations KAZA-TV (Los Angeles, California DMA) and WTWB-TV (Greensboro-Winston-Salem-High Point, North Carolina DMA) are presently carried by DirecTV. Pappas is working with DirecTV regarding signal issues relating to KAZH-TV (Houston, Texas DMA).

<sup>18</sup> Comments of Telemundo Group, Inc., CS Docket No. 00-96 (filed Jan. 23, 2002), at 2; *see also* Written Testimony of Michael J. Fiorile, President and CEO, Dispatch Broadcast Group, before the Telecommunications and Internet Subcommittee, United States House of Representatives, on "The Status of Competition in the Multi-Channel Video Programming Distribution Marketplace," Dec. 4, 2001, at 17 ("Fiorile Testimony") (noting EchoStar's "Relentless Guerilla Warfare" against carriage elections by local

statutory carriage obligation under SHVIA. In December 2001, EchoStar announced that it would relegate certain local stations, including the Pappas Azteca Stations, to remote “wing slot” satellites that can not be accessed by current EchoStar subscribers using their existing satellite dish equipment, while placing more “popular” local stations, like the Big Four network affiliates, on its full CONUS satellites which can be readily accessed today without any additional equipment. Pappas’s efforts to attract viewers to the Pappas Azteca Stations has been significantly impeded by EchoStar’s discriminatory practice of relegating these stations to remote satellites which are accessible only to subscribers able and willing to assume the onerous burden of arranging, and perhaps paying for, the installation of additional receiving equipment.

As the Commission is aware, the so-called “second dish” issue is the subject of a separate pending proceeding before the Commission, and an Emergency Petition to modify or clarify the mandatory carriage rules was filed on January 4, 2002 by the National Association of Broadcasters (“NAB”) and Association of Local Television Stations (the “Emergency Petition”). Pappas notes that Univision Communications Inc. (“Univision”), the Telemundo Group (“Telemundo”), Entravision Holdings, LLC (“Entravision”), and Pappas, all operators of Spanish-language television stations, have filed comments in support of the Emergency Petition. Univision, Telemundo, and Entravision have each noted in their filings the disproportionate adverse impact upon on Spanish-language television of EchoStar’s second dish scheme, and the unique injury to Hispanic viewers resulting from EchoStar’s practice. With the notable exception of three Univision stations or affiliates, and Telemundo’s WSCV(TV), which happens to be the highest-rated television station in the Miami-Ft. Lauderdale, Florida DMA, it appears that

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broadcasters and EchoStar’s “crude form letters offering nonsense reasons for rejecting most stations, such

virtually all Spanish-language broadcast television stations in the country have been relegated to EchoStar's inferior secondary satellites, which can only be accessed by viewers willing and able to install a second dish. This practice unquestionably restricts severely Hispanic viewers' access to local Spanish-language programming via satellite. Having placed virtually all Spanish-language broadcast stations in its second-dish "Siberia", EchoStar has ensured that local Spanish-language television is as a practical matter inaccessible to the vast majority of EchoStar subscribers.

This state of affairs presents particular challenges for the Pappas Azteca Stations which, having commenced broadcast operations as affiliates of the new Azteca America network only within the several months, are new entrants in the Spanish-language television market seeking to attract new viewers and gain market share. The reality is that many EchoStar subscribers are not even aware of the fact that there are local stations which they are entitled by law to receive – and which they have in essence paid EchoStar to provide – but which they can only receive if they are willing and able to have additional hardware installed and perhaps to incur additional expenses. Therefore, only the most knowledgeable and most determined subscriber is likely to bother, and as a consequence, the local stations relegated to the second dish will in actuality be viewed by only a small fraction of EchoStar subscribers. This reality was surely not lost on EchoStar in devising this scheme for evading the clear Congressional mandate of "carry one, carry all."

As the NAB noted in its comments to the Commission in conjunction with the Emergency Petition, "any scheme that forces consumers to undertake the burden of acquiring additional equipment to receive some – but not all – local stations is inherently

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as absurd claims that the stations didn't list the city in which they are licensed").

and inevitably discriminatory.”<sup>19</sup> Nevertheless, EchoStar has attempted to shield itself from criticism for this discriminatory practice by touting its ostensible commitment to pay at least part, and perhaps even all, of the cost of the required additional equipment and its installation until March 31, 2002.<sup>20</sup> In actuality, the sheer hassle, inconvenience, and aesthetic costs to consumers of a second dish act as a very strong disincentive. Moreover, the fact that EchoStar has made almost no effort to publicize this “time-limited offer” to its subscribers speaks volumes about EchoStar’s motives. After all, EchoStar has no business incentive to install large numbers of second dishes at its own expense; it therefore has no business incentive to advise or encourage its current customers to act on a “secret offer” – which in any event expires on March 31, 2002.<sup>21</sup>

Pappas further notes that EchoStar’s customer service representatives seem curiously ill-informed about the purported EchoStar offer. Representatives of Pappas have made numerous telephone calls to EchoStar, as well as to its local retailers, in the Pappas Azteca Stations’ respective markets, and have received a mixture of incomplete, erroneous, and conflicting information about the “offer” as regards the financial responsibility for the second dish. Without exception, EchoStar’s customer service representatives failed to volunteer any information about the “offer” to Pappas’s representatives who called to inquire about accessing the Pappas Azteca Stations, unless and until specifically pressed. When explicitly asked whether EchoStar would pay all

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<sup>19</sup> NAB Comments in CS Docket No. 00-96, at 2.

<sup>20</sup> *Id.*

<sup>21</sup> Pappas notes that, at least as of February 4, 2002, EchoStar’s web site continues to make no mention whatsoever of its purported offer to pay all out-of-pocket costs associated with the additional dish. Moreover, EchoStar’s December 27, 2001 press release about its plans to offer additional local stations effective January 1, 2002 likewise makes no mention of the purported offer. Finally, as the Emergency Petition points out, the December 27, 2001 letter from EchoStar’s Chief Executive Officer to the President of the NAB refers only to EchoStar’s assuming the cost of the equipment, but not necessarily the installation of the second dish.

costs associated with the additional dish, some of the EchoStar customer service representatives indicated that EchoStar would bear the cost of the additional equipment and installation, but in most cases they also indicated that it was possible that there would be additional installation costs to be borne by the subscriber, depending upon the circumstances of the particular installation.<sup>22</sup>

Thus, far from making any effort to educate its subscribers about EchoStar's time-limited second dish "offer" or to encourage subscribers to take advantage of it, the evidence suggests that EchoStar seeks to deter its customers from having an additional dish installed, thereby impeding its customers' ability to exercise their rights to receive all local stations. In so doing, EchoStar contravenes the clear intent, if not the letter, of SHVIA, and indeed makes a mockery of that Act's carry one, carry-all provisions.

Such patent discrimination against certain local stations, including the Pappas Azteca Stations, simply can not be reconciled with the clear intent of Congress in passing SHVIA, which includes a specific provision barring discriminatory treatment of some local stations. 47 U.S.C. § 338(d). As the NAB's Emergency Petition points out, Congress intended to "...ensure that satellite carriers position local stations in a way that is convenient and practically accessible for consumers."<sup>23</sup> Moreover, the Commission's rule addressing this issue – Section 76.66(i)(4) – seems clearly intended, when read in light of the relevant Commission Orders, to prevent satellite carriers from engaging in

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<sup>22</sup> When Pappas's representatives called local retailers to inquire about the second dish, they were told nothing about EchoStar's offer. Rather, they were advised in one case that a second dish would cost \$100 for equipment and \$69 for installation (Cooper Communications, Brentwood, California), and \$185 for the equipment with installation included in another case (Star Satellite, Danville, California). In both cases, the retailers indicated that they expected a change in EchoStar's policy in the next month, but they were unsure what the new policy would be.

<sup>23</sup> SHVIA Conference Report, 145 Cong. Rec. H11795 (daily ed. Nov. 9, 1999).



“cherry-picking” of local stations by forcing subscribers to acquire a second dish in order to obtain some local stations.

EchoStar’s second dish practice is but the latest in a long litany of practices intended to evade or thwart the law – a pattern that calls into question EchoStar’s fitness to become the nation’s sole DBS provider. If EchoStar is allowed to acquire DirecTV and thereby become the monopoly DBS provider, EchoStar will surely be even less constrained than it is today in engaging in the pattern of improper and unlawful practices outlined herein.

### **III. The Proposed EchoStar/DirecTV Merger Has Anticompetitive Implications for Local Television Broadcasters and Consumers**

Today, the vast majority of consumers receive local broadcasting via a cable system or from DirecTV or EchoStar. Many rural consumers can only receive local broadcast stations by subscribing to DirecTV or EchoStar. The ability to provide their customers with local programming has substantially benefited the DBS providers, and contributed to the success of DBS.<sup>24</sup> Competition between EchoStar and DirecTV has proven beneficial to consumers in innovation, service, pricing, and the growth of local-into-local service, and also has benefited some local broadcasters (*i.e.*, affiliates the Big 4 networks).

The proposed merger would eliminate competition in the DBS industry and would reduce the competitive options in the broader MVPD market from three to two in most markets.<sup>25</sup> This is particularly disastrous for consumers in the many smaller markets in which the merged company will not offer local-into-local service. EchoStar’s CEO has

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<sup>24</sup> See *Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming*, FCC 01-389 (rel. Jan. 14, 2002) (“*Annual Cable Report*”), ¶¶ 7, 83.

<sup>25</sup> *Annual Cable Report*, ¶ 168 (noting that only one percent of cable community units have been certified by the Commission as having “effective competition.”).

publicly stated that the merged company will offer local signals in only 100 markets – virtually all of the top 100 markets.<sup>26</sup> That would leave 110 U.S. television markets without satellite-delivered local broadcast stations, and bereft of the diversity of programming that Congress deemed so essential when it enacted SHVIA. In areas unserved by cable, EchoStar’s announced intention would result in consumers being unable to receive local broadcast stations at all.<sup>27</sup>

Some, including EchoStar, may argue that DBS competes in the broader MVPD distribution market, which includes cable, and consequently that the merger would only eliminate one competitor out of several in the market. EchoStar’s CEO Charles Ergen acknowledged that “If the market is satellite only, then I wouldn’t approve this deal.”<sup>28</sup> EchoStar chooses to define the relevant “market” based upon its needs of the day. In its antitrust lawsuit filed against DirecTV last year (and subsequently dismissed after the announcement of the merger), EchoStar defined the relevant market as the “high-power DBS market.”<sup>29</sup>

Even assuming, *arguendo*, that DBS competes in the same relevant “market” as cable, the merger would lessen competition against cable, not increase it. In most U.S. households, television sets hooked up to cable or satellite are not equipped to receive over-the-air broadcast service. Thus, the cable or satellite provider is able to exercise “gatekeeper” control over the signals viewed on a connected television set. Reducing the

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<sup>26</sup> See *supra* note 5.

<sup>27</sup> See Fiorile Testimony, at 23.

<sup>28</sup> “EchoStar’s Ergen Starts Campaign to Get Approval for DirecTV Deal,” *The Wall Street Journal*, B6, Oct. 31, 2001.

<sup>29</sup> *EchoStar Communications Corp. v. DirecTV*, Civ. No. 00-K-212 (D.C. Colo. filed Apr. 5, 2001) (Amended Complaint, ¶ 76).

number of gatekeepers from three to two does not serve the interests of broadcasters or consumers, and is not in the public interest. Antitrust authorities have rejected this type of merger.<sup>30</sup> As demonstrated herein and by other broadcasters' comments, EchoStar and DirecTV have already exhibited their inclination to abuse their gatekeeper roles.

It should also be noted that local broadcasters who bargain with cable systems and satellite carriers for retransmission consent rights will be at a significant competitive disadvantage when they are forced to deal with only two MVPD competitors in a market. This unfair bargaining power would be especially significant in markets unserved by cable, where DBS is the "only game in town."

#### **IV. An EchoStar/DirecTV Combination Presents Special Harms to Rural Consumers**

Pappas supports the positions advanced by several commenters in this proceeding, including Members of Congress, who have demonstrated that the Commission's grant of consent to the requested transfer of control at issue, and the merger between EchoStar and DirecTV, would have an especially harmful effect on rural consumers.<sup>31</sup>

Many rural areas remain unserved by cable television systems. The National Rural Telecommunications Cooperative ("NRTC") estimates that up to 20% of U.S. households may not have access to cable.<sup>32</sup> These rural consumers are only able to obtain

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<sup>30</sup> See *FTC v. H.J. Heinz Co.*, 246 F.3d 708 (D.C. Cir. 2001) (rejecting arguments that merger to create a duopoly would allow the #2 and #3 firms to compete better against the #1 firm).

<sup>31</sup> See Comments of Sens. Hollings and Stevens, filed Oct. 26, 2001 (noting that the consolidation of the two largest domestic satellite providers "would leave consumers with few, if any choices – particularly in rural America where a significant percentage of consumers depend solely on satellite service"); Comments of Sen. Max Baucus, filed Nov. 19, 2001 (asserting the "troubling nature" of leaving rural consumers with a monopoly provider); Comments of Congressional Rural Caucus, filed Jan. 17, 2002 ("The rural consumers that presently have a choice between two fiercely competitive satellite providers will be subjected to an unchecked monopoly provider if the merger is approved without appropriate consumer protections.").

<sup>32</sup> *Ex Parte* Filing in CS Docket No. 01-348 by the National Rural Telecommunications Cooperative, filed Jan. 31, 2002 ("*NRTC Ex Parte*").

local broadcast stations and video programming services by subscribing to DirecTV or EchoStar. In fact, DirecTV estimates that approximately half of its subscribers reside in small, rural counties.<sup>33</sup> Consequently, the merger between EchoStar and DirecTV would eliminate competition between the two DBS providers in those markets by creating a “DBS satellite monopoly.”<sup>34</sup> In those rural areas unserved by cable, consumers would be left with only one provider of local broadcast stations and video programming. The consumers would be subject to the merged company’s programming choices, pricing and billing package, and customer service (which the comments in these proceeding have demonstrated has at times been abysmal at EchoStar).<sup>35</sup>

In addition, of special concern is the future of broadband Internet access on the part of rural America. As the NRTC has demonstrated, the proposed merger, if approved, “will leave one company controlling the availability, breadth and cost” of most satellite broadband Internet services to rural America, and create a monopoly “in a market that is still forming.”<sup>36</sup> The Commission has already recognized that consumers in rural areas, minorities, low-income individuals, and others face special challenges in overcoming the “digital divide” and obtaining broadband services.<sup>37</sup> A grant of the Consolidated

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<sup>33</sup> See *Annual Cable Report*, ¶ 82.

<sup>34</sup> NRTC *Ex Parte*, at 1.

<sup>35</sup> While some have suggested that EchoStar’s rates in rural areas could be regulated or voluntarily “capped” to a national rate, the pricing issue is not the end of the problem. Rather, there are issues of innovation, customer service, and program offerings. As the American Antitrust Institute has aptly observed, “[e]ven if the price is right, to whom is the rural customer supposed to turn when he believes the monopolist’s service stinks?” Letter to the U.S. Department of Justice from the American Antitrust Institute (dated Nov. 5, 2001) (voicing strong opposition to EchoStar/DirecTV merger).

<sup>36</sup> Testimony of Bob Phillips, President and CEO of the National Rural Telecommunications Cooperative, Before the U.S. House of Representatives Committee on the Judiciary Regarding Direct Broadcast Satellite Service and Competition in the Multichannel Video Distribution Market, December 4, 2001 at 4.

<sup>37</sup> See *Deployment of Advanced Telecommunications Capability: Second Report* CC Docket No. 98-146, 15 FCC Rcd. 20913 (2000).

Application would undermine Congress's mandate in Section 706 of the Telecommunications Act of 1996 to "encourage the deployment on a reasonable and timely basis of advanced telecommunications capability to all Americans," by creating a monopoly provider of these essential services.

## **V. Conclusion**

Pappas believes that maintaining unfettered access to local broadcast stations on multiple distribution platforms is essential to the continued viability of local television broadcasting. As the U.S. Court of Appeals for the Fourth Circuit noted in its opinion confirming the constitutionality of satellite must-carry, mandatory carriage of local broadcast stations is essential to preserving free over-the-air television.<sup>38</sup> Pappas urges the Commission to protect the continued viability of local broadcast outlets for over-the-air viewers and continued competition in local markets for broadcast television advertising.

For the reasons set forth in these Comments, Pappas respectfully requests that the Commission deny its consent to the requested transfer of control, as the proposed transaction is incompatible with the public interest.

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<sup>38</sup> See *Satellite Broadcasting and Communications Association v. Federal Communications Commission*, 2001 U.S. App. LEXIS 26120, \*70 (4th Cir. 2001).

Respectfully submitted,

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February 4, 2002

## **CERTIFICATE OF SERVICE**

I, Nancy K. St. Hilaire, do hereby certify that I have on this 4th day of February, 2002, caused to be sent by, a copy of the foregoing Comments in Opposition of Pappas Telecasting Companies to be served electronically or by first-class United States mail, postage prepaid to the following:

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